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SUBJECT: INDONESIA TRADE AND INVESTMENT HIGHLIGHTS - DECEMBER 2006

1. Summary: The Indonesian Textile Association announced on December 7 that Indonesia's textile and garment exports reached \$7.2 billion for the first nine months of 2006, and should meet earlier projections of \$9 billion for 2006. Director General for International Trade Diah Maulida stated on December 26 that transshipments through Indonesia continue to flourish and more effort is needed in 2007 to implement regulations designed to curb these activities. The Government of Indonesia (GOI) announced on December 21 plans for the State Logistics Agency (BULOG) to import 500,000 tons of rice in January and February 2007 and distribute 600,000 tons of rice to Indonesia's poor the next few months in an effort to stabilize rapidly escalating rice prices. On December 27, the Jakarta Metropolitan Police destroyed 2.4 million pirated optical discs seized in raids on vendors, distributors and factories since July 2006. The Ministry of Marine Affairs and Fisheries announced on December 1 that the European Union has dropped plans to impose an embargo on Indonesian fisheries products following Indonesia's adoption of new quality control standards. End Summary.

Textile and Garment Exports Show Continued Growth

2. Executive Secretary of the Indonesian Textile Association (API) Ernovian Ismy told the press on December 7 that based on Indonesia Central Statistics Agency (BPS) and Ministry of Industry (MOI) figures the API expects Indonesia's textile and garment exports to reach \$10 billion in 2007, increasing from a projected \$9 billion in 2006. Textile and garment exports from January to September 2006 were \$7.2 billion, an increase of 10.8% over the same period in 2005. Ismy expressed optimism that Indonesia would meet its \$9 billion export target for 2006, and that a \$10 billion forecast for 2007 is realistic.

3. The textile and garment industry is one of Indonesia's largest foreign exchange earners, contributing \$8.6 billion in exports in 2005, 14.9 percent of total non-oil and gas exports and approximately three percent of Gross Domestic Product. In 2005, Indonesia ranked number 11 globally among textile exporters with a 1.6% world market share, and number nine in garments with a 1.7% world market share. Ismy claimed, however, that BPS and Ministry of Industry data indicate the Indonesian textile and garment industry's share of the domestic market declined dramatically to 36% in 2005 from 75% in 2004 (300,960 tons in volume in 2005, compared to 661,500 tons in 2004) due to a flood of cheap imports being smuggled into the country.

GOI Takes Steps Against Transshipments

14. Ministry of Trade (MOT) Director General for International Trade Diah Maulida admitted on December 26 that the MOT needs to a better job in 2007 to curb transshipments. Maulida issued Director General for International Trade Regulation No. 4/2005 on October 7, 2005 limiting the issuance of Indonesian Certificates of Origin (COOs) for sensitive items like shrimp, textiles, garments and footwear to just 14 of 85 provincial offices. Maulida, however, admitted that the MOT needs to strengthen implementation of the regulations since transshipments of goods through Indonesia continues to flourish. Maulida noted that companies from some countries, including China, use Indonesia to transship their exports and avoid U.S. and the European Union trade restrictions.

15. Regulation No. 4/2005 limits the issuance of COO's for Indonesian textiles, garments and footwear to 14 provincial trade offices:

- North Sumatra;
- Riau;
- Jakarta;
- West Java;
- Central Java;
- East Java;
- Bali;
- Jogjakarta;
- Surakarta;
- Riau Island;
- Batam Industrial Development Authority;
- Cakung Bonded Zone, Jakarta;
- Tanjung Priok Bonded Zone, Jakarta; and
- Marunda Bonded Zone, Jakarta;

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16. The regulation also limits issuance of COO's for Indonesian shrimp to 14 provincial trade offices:

- North Sumatra;
- South Sumatra;
- Lampung;
- Jakarta;
- West Java;
- East Java;
- Central Java;
- South Sulawesi;
- South Kalimantan;
- East Kalimantan;
- Tarakan, Kalimantan;
- South East Sulawesi;
- Cirebon Regency, West Java; and
- Bali.

GOI Decides to Import Rice as Prices Rise

17. In the face of continuing increases in domestic rice prices, including an eight percent spike during the first three weeks of December, the GOI announced on December 21 that the National Logistics Agency (BULOG) would import 500,000 tons of rice during January-February 2007. The GOI also announced that BULOG would distribute up to 600,000 tons of rice to Indonesia's poor in the coming months. The moves follow an October 2006 World Bank report identifying increases in rice prices as the leading cause of a higher incidence of poverty. Rice accounts for 25 percent of poorer Indonesian's regular daily expenditures. National Statistics Agency (BPS) surveys indicate that wholesale rice prices rose 27 percent from November 2005 to November 2006 on the back of a 33 percent increase during the same period a year earlier. Consequently, higher rice prices have contributed significantly to the increase in the incidence of poverty from 16.0 percent in 2005 to 17.8 percent in 2006.

18. The GOI banned rice imports in 2004, and up until recently had renewed the ban every six months, with the exception of allowing

BULOG to import 210,000 metric tons on October 2, 2006. Although it has agreed to allow BULOG to import a set amount of rice through February, it is uncertain if the GOI will maintain its general ban on rice imports at the end of December 2006. BULOG, a quasi-private organization, maintains a rice stock for distribution to the poor or victims of natural disasters at subsidized prices, which it releases at the behest of the GOI. Current GOI policy prohibits BULOG from importing rice unless its stocks fall below 1,000,000 tons. In recent months, GOI ministers, rice distributor and farmer associations have voiced varying opinions about the size of BULOG's rice stocks, the need to import rice to stabilize domestic prices, and the GOI's overall rice policy.

Police Conduct Optical Disc Destruction Ceremony

¶9. Metropolitan Jakarta Police on December 27 held a destruction ceremony of 2.4 million pirated optical discs and three optical disc burner stacks as part of their continuing efforts to improve intellectual property rights (IPR) enforcement and protection. In 2006, Jakarta Police seized more than 8.3 million video, music and software optical discs. During the ceremony, Jakarta Police estimated that piracy caused Rp 29 billion (US\$ 3.2 million) in state losses from unpaid taxes in 2006. Jakarta Police said that more than 500 people were arrested in 2006 on suspicion of involvement in piracy and related crimes. Ministry of Justice Director of Copyrights Ansori Sinungan expressed hope that the Indonesian public would take a more active role in fighting piracy.

EU Drops Embargo Plan for Indonesian Fishery Products

¶10. Ministry of Maritime Affairs and Fisheries Director of Standardization and Accreditation Setia Mangungsong announced on December 1 that the European Union (EU) would not impose an embargo on Indonesian fishery products as it had earlier threatened. According to Mangungsong, the EU has accepted quality control standards recently adopted by Indonesia for exports of its fishery products. He added that an EU inspection team plans to visit Indonesia in early 2007. An official at the European Union (EU) Mission in Jakarta clarified that, following the results of 2005

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inspections, the EU has required testing of samples from all containers of fisheries products originating from Indonesia since January 2006. Importers are required to pay the costs of the samplings and tests. The EU official added that, based in part on recent GOI efforts to improve regulation of fisheries exports, the EU does not intend to take any further measures at this time.

Table 1: Indonesia Trade Performance Jan-Nov 2006
(in USD billions)

	2005 Jan Nov	2006 Jan Nov	Pct YoY (1)
Exports	77.5	91.2	17.7
Oil and Gas	17.4	19.3	10.9
Non-oil and Gas	60.1	71.9	18.0
Imports	52.8	56.1	6.3
Oil and Gas	16.1	17.6	9.3
Non-oil and Gas	36.7	38.5	4.9
Balance of Trade	24.7	35.1	42.1

(1) Percent increase year-on-year.

Table 2: Indonesia's Top Non-Oil and Gas Exports
Jan-Nov 2006 (in USD billions)

Commodity	2005	2006	Pct of
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	Jan- Nov	Jan- Nov	Total 2006
Electrical tools	6.66	6.65	9.25
Coal	4.17	5.86	8.15
Crude Palm Oil	4.54	5.30	7.38
Rubber and rubber products	3.22	5.15	7.16
Ash and Residues	2.97	4.22	5.88
Machinery/mechanical tools	4.13	3.98	5.54
Garments - not Knitted	2.77	3.06	4.26
Wood and wood products	2.84	2.99	4.16
Copper	1.14	1.83	2.55
Chemical Organic	1.41	1.71	2.38
Total top 10 products	33.87	40.77	56.71
Other	26.26	31.12	43.29
Total non-oil and gas exp	60.13	71.89	100.00

Table 3: Indonesia's Main Non-Oil and Gas
Export Destinations
Jan-Nov 2006 (FOB value, in \$ billions)

Country of Destination	2005 Jan-Nov	2006 Jan-Nov	Percent of Total (2006)
Japan	8.72	10.93	15.20
European Union	9.24	10.77	14.98
U.S.A.	8.63	9.78	13.60
Singapore	6.43	7.07	9.84
China	3.60	4.95	6.89
Malaysia	2.96	3.52	4.90
South Korea	2.23	3.12	4.35
Taiwan	1.64	2.06	2.86
Australia	1.02	1.36	1.89
Others	15.65	18.32	25.49
Total	60.13	71.89	100.00

Source: Central Bureau of Statistics (BPS)

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